

# Staff Report on VRS Options

Joint Legislative and Review Commission (JLARC)

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# JLARC Report

- The General Assembly's Joint Legislative Audit and Review Commission received the staff report on the Virginia Retirement System (VRS) yesterday.
- Major recommendations covered in the staff report at the meeting that are of interest to the City included the following:

# Focused on State Employees

The report centered on VRS State employees, with virtually no discussion of local employees or K-12 teachers.

# VRS: a Major State Benefit

- A major emphasis of the presentation--the usefulness of VRS as a tool to hire and retain State employees.
- State agency salaries are considered non-competitive with comparator employers.

# Changes to VRS that were proposed for consideration

- a. Base benefits for Plan 1 employees (those hired prior to 7/1/2010) on the highest 60 months of salary.

# Proposed Changes, continued

b. Decrease the multiplier from 1.7% to 1.6% for all new employees.

# Proposed Changes, continued

c. Decrease the maximum COLA by using 100% of the first 2% increase in CPI, and 50% of the next 2%, for a total maximum annual COLA of 3%.

# Proposed Changes, continued

- d. Delay any COLA for employees who retire early with a reduced benefit until they reach the retirement age for unreduced benefits.



# Defined Contribution Plans

- Study considered requiring all new State employees to join defined contribution plans.
- Paying off existing liabilities of the defined benefit plan would be costly to the State Estimated short-term costs: \$300 million in year 1, \$93 million in year 15.

# State Employee Preferences

- Survey of 5,000 State employees showed that most preferred to remain in a defined benefit plan.
- Newer employees would be more likely to consider a defined contribution plan; even so, a majority (56%) of those with 5 or fewer years of service said they would probably or definitely stay in a defined benefit plan.
- A defined contribution plan would likely provide adequate retirement income only if the employee contributed over a long period of time at a maximum contribution rate.

# Hybrid Plan

- Study looked at a hybrid (defined benefit/defined contribution) plan.
- State employees expressed a greater interest in a hybrid plan than a defined contribution plan.
- Under certain scenarios, a retiree would likely receive adequate retirement income if he worked a full career in a VRS position.
- Key concern of employees: the need for advice on investment decisions.
- A hybrid plan would be somewhat less costly to the State than a defined benefit plan.

# Optional, Not Mandatory

JLARC staff recommended that any plans other than the current defined benefit plan be optional for employees.

# Next Steps

- City staff is reviewing full report and will follow up with Council as appropriate.
- Retirement Benefit Advisory Group will review report in early January.
- Governor's budget (Dec. 19) will propose VRS rates for teachers. This information will be included in my summary of the proposal.

# 2012 Session

- VRS will be covered fully in legislative updates during the upcoming Session.
- Council's Legislative Subcommittee will carefully consider VRS-related legislative proposals.